

# OPINION AND COMMENT



The Nature of Democracy

Suggestions for Wartime Personnel Practices

What Does a College Professor Do?

The Federal Debt

Do We Have a New Kind of "Ism"?

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This publication of the Bureau of Economic and Business Research of the University of Illinois rests upon the belief that businessmen of the State will appreciate interpretative comments on current events. Because studied opinions on the significance of current trends are often more thought-provoking in the conduct of business affairs than mere tabulations of data would be, the Bureau supplements its research bulletins by producing *Opinion and Comment* as another type of service to the State.

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# The Nature of Democracy

(An address delivered before the Faculty Forum of the Young Men's Christian Association, University of Illinois)

ROBERT M. HUTCHINS

President, University of Chicago

WHEN you go to war, you must know what you are willing to fight for. If you are going to defend territory, you must know what territory you are going to defend. If you are going to defend principles, you must know what your principles are and why you hold them. America's preparations for war have been directed to territorial problems, such as the imminent danger to the United States from an attack on the Dutch East Indies or Brazil. Though these issues are important, they are not so important as the issues of principle involved. We may be fainthearted, even in defense of our native land, if we believe that the enemy is just as right as we are or that we are just as wrong as he. The attention that has been lavished on territorial questions and the general indifference to questions of principle suggest that those who have talked about the war either have no principles, or none they can communicate to others, or no such understanding of their principles as a life-and-death struggle for them would demand.

We do not seem to get very far by talking about democracy. We know that Germany is not one. She says so. We know that Russia is not one, though Stalin says she is

one. We think France is not one. We are not sure about some elements in the government of England. We are not altogether sure about this country. The reason is, of course, that we do not know what a democracy is or grasp the fundamental notions on which it rests. We set out in the last war to make the world safe for democracy. We had, I think, no very definite idea of what we meant. We seemed then to favor a parliamentary system. No matter what the system concealed, if the system was there, it was democracy, and we were for it. Though Hitler is infinitely worse than the Kaiser, though the danger to the kind of government we think we believe in is infinitely greater than in 1917, we have less real, defensible conviction about democracy now than we had then. Too many so-called democracies have perished under the onslaught of an invader whose technical and organizing ability commands the admiration of a people brought up to admire technical and organizing skill. With our vague feeling that democracy is just a way of life, a way of living pleasantly in comparative peace with the world and one another, we may soon begin to wonder whether it can stand the strain of modern times, which, as



our prophets never tire of telling us, are much more complicated than any other times whatever.

Is democracy a good form of government? Is the United States a democracy? If we are to prepare to defend democracy we must be able to answer these questions. I repeat that our ability to answer them is much more important than the quantity or quality of aeroplanes, bombs, tanks, flame-throwers, and miscellaneous munitions that we can hurl at the enemy. You may take it from Hitler himself. He said, according to Rauschning: "Mental confusion, contradiction of feeling, indecisiveness, panic: these are our weapons." In view of the huge resources of this country, all that we have to fear is that the moral and intellectual stamina of the defenders will not be equal to an attack upon it.

Now democracy is not merely a good form of government; it is the best. Though the democratic ideal has long been cherished in this country, it has never been attained. Nevertheless, it can be attained if we have the intelligence to understand it and the will to achieve it. We must achieve it if we would defend democracy. The principle is sound that no country can win a democratic victory unless it is democratic.

The reasons why democracy is the best form of government are absurdly simple. It is the only form of government that can combine three characteristics: law, equality, and justice. A totalitarian state has none of these, and hence, if it is a state at all, it is the worst of all possible states.

I do not have to tell you that men are not angels. They have reason, but they do not always use it. They are swayed by emotions and desires that must be held in check. Law is an expression of their collective rationality, by which they hope to educate and control themselves. Law is law only if it is an ordinance of reason directed to the good of the community. It is not law if it is an expression of passion or designed for the benefit of pressure groups. We have a government of men and not of laws when the cause of legislative enactments is anything but reason and its object anything but the common good.

The equality of all men in the political organization results inexorably from the eminent dignity of every individual. Every man is an end; no man is a means. No man can be deprived of his participation in the political society. He cannot be exploited or slaughtered to serve the ends of others. We have no compunctions about refusing animals the ballot. We have few about exploiting or slaughtering them in our own interest. But the human animal is bound to recognize the human quality of every other human animal. Since human beings, to achieve their fullest humanity, require political organization and participation therein, other human beings cannot deny them those political rights which human nature inevitably carries with it.

These same considerations help us to understand that the state is not an end in itself, as the Nazis think, or a mere referee, as the Liberty Leaguers used to say. Polit-

cal organization is a means to the good of the community. And the common good itself is a means to the happiness and well-being of the citizens. The common good is peace, order, and justice, justice in all political, social, and economic relations. Justice is the good of the community. But what is the community? It is certainly something more than an aggregation of people living in the same area. A community implies that people are working together, and people cannot work together unless they have common principles and purposes. If half a crew of men are tearing down a house as the other half are building it, we do not say they are working together. If half a group of people are engaged in robbing, cheating, oppressing, and killing the other half, we should not say the group is a community. Common principles and purposes create a community; justice, by which we mean a fair allocation of functions, rewards, and punishments, in terms of the rights of man and the principles and purposes of the community, holds it together.

The state, then, is not merely conventional, representing a compromise of warring interests who have finally decided that mutual sacrifices by subordination to a central authority are preferable to mutual extermination. The state is necessary to achieve justice in the community. And a just society is necessary to achieve the terrestrial ends of human life.

Since the individual cannot exist without the community and the community cannot exist without the

adherence of its members, the individual must respond to the call of the community and be prepared to surrender his goods, his temporal interests, and even his life to defend the community and the principles for which and through which it stands. These principles are the essence of the community.

We see, then, that we are back where we started. We began with the importance of principles in defense. We must now add that without principles and common principles clearly understood and deeply felt there can be no political community at all. There can be only a conglomeration of individuals wrestling with one another in the same geographical region.

Let us inquire, then, into what is needed if we are to understand clearly and feel deeply the principles on which democracy rests. What is the basis of these principles of law, equality, and justice? In the first place, in order to believe in these principles at all we must believe that there is such a thing as truth and that in these matters we can discover it. We are generally ready to concede that there is truth, at least of a provisional variety, in the natural sciences. But there can be no experimental verification of the proposition that law, equality, and justice are the essentials of a good state. If there is nothing true unless experiment makes it so, then what I have been saying is not true, for I have not relied on any experimental evidence. But principles which are not true are certainly not worth fighting for. We must then agree that truth worth fighting



for can be found outside the laboratory. Valuable as the truths are that may be found in it, truths about the ends of life and the aims of society are not susceptible of laboratory investigation.

Now truth is of two kinds, theoretical and practical. Theoretical truth tells us what is the case. Practical truth tells us what should be done. The test of theoretical truth is conformity to reality. A statement about the nature of man, for example, is true if it describes man as he actually is. The test of practical truth is the goodness of the end in view. The first principle in the practical order is that men should do good and avoid evil. The statement, for example, that men should lay down their lives in a just war is true, if the war is just. The statement that they should wage war to gain power or wealth or to display their virility is false.

In order to believe in democracy, then, we must believe that there is a difference between truth and falsity, good and bad, right and wrong, and that truth, goodness, and right are objective standards even though they cannot be experimentally verified. They are not whims, prejudices, rationalizations, or Sunday-school tags. We must believe that man can discover truth, goodness, and right by the exercise of his reason, and that he may do so even as to those problems which, in the nature of the case, science can never solve.

It follows, of course, that in order to believe these things we must believe that man has reason, that he does not act from instinct alone, and

that not all his conduct can be explained in terms of his visceral reactions or his emotional inheritance. As Gilbert Murray once put it, not all human activities are the efflorescence of man's despair at finding that by the law of his religion he may not marry his grandmother. But in order to believe in democracy we must believe something more. We must see that the moral and intellectual powers of men are the powers which make them men and that their end on earth is the fullest development of these powers. This involves the assumption, once again, that there is a difference between good and bad and that man is a rational animal. There is no use talking about moral powers if there is no such thing as morals, and none in talking about intellectual powers if men do not possess them.

The central issue here is that of freedom. When we talk about freedom we usually mean freedom from something. Freedom of the press is freedom from censorship. Academic freedom is freedom from presidents, trustees, and the public. Freedom of thought is freedom from thinking. Freedom of worship is freedom from religion. So, too, civil liberty, the disappearance of which throughout the world we watch with anxious eyes, is generally regarded as freedom from the state. This notion goes back to Rousseau. He located the natural man in a world of anarchy. The natural man had no political organization, and Rousseau strongly hinted that this was the most delightful aspect of his condition. The political state was a compromise, no less unfortunate because

it was necessary. This view has been popular ever since. It is reflected every day in the attitude of those who look upon the activities of government as an evil. Though they admit that society must suffer certain necessary evils, they naturally have no wish to multiply them. Hence the attraction and power of the slogan, "That government is best which governs least."

This notion of government and its role is based on a myth, on a misconception of the nature of man and the nature of the state. It is not surprising that a doctrine absurdly grounded and workable only in countries of vast and untapped resources should contain in itself the seeds of an opposing doctrine, the doctrine that the state is all, that men are nothing but members of it, and that they achieve their ultimate fulfillment, not through freedom from the state, but through complete surrender to it. This is fascism. It ascribes to the political organization qualities that can belong only to God. It denies the eminent dignity of the person. It deprives man of the characteristic that raises him above the beasts, his reason. It sacrifices all that is specifically human, that is, moral, intellectual, and spiritual development, and glorifies a specifically sub-human attribute, namely, force.

These are the consequences of thinking of freedom as freedom from something. Freedom is not an end in itself. We do not want to be free merely to be free. We want to be free for the sake of being or doing something that we cannot be or do unless we are free.

We want to be free to obtain the things we want.

Now the things we want are good things. First, we want our private and individual good, our economic well-being. We want food, clothing, and shelter, and a chance for our children. Second, we want the common good: peace, order, and justice. But most of all we want a third order of goods, our personal or our human good. We want, that is, to achieve the limit of our moral, intellectual, and spiritual powers. This personal, human good is the highest of all the goods we seek. As the private good, which is our individual economic interest, is subordinate to the common good, which is the interest of the community, so the common good is subordinate to our personal and human good and must be ordered to it. Any state in which the common good is sacrificed to private interests, or in which the moral, intellectual, and spiritual good of the citizens is sacrificed to the political organization is not a state. It is a fraud subsisting by force.

We in universities are concerned with free minds. How can we get them? We must remember that it is not freedom from something that we are seeking. We want minds that are free because they understand the order of goods and can achieve them in their order. The proper task of education is the production of such minds. But we can now see that we are not likely to produce them by following the recommendations of the more extreme of those called progressives in education. Freedom from disci-



pline, freedom to do nothing more than pursue the interests that the accident of birth or station has supplied may result in locking up the growing mind in its own whims and difficulties.

If we cannot produce free minds by adopting the suggestions of the more undisciplined progressives, we cannot hope for much better luck by continuing the almost universal practice of regarding education as a tour of the current events in the various fields of knowledge. This practice must result in locking up the growing mind in information current once but archaic now. The pupils that we have today will leave our hands between 1942 and 1956. I doubt if we prepare them for the long years ahead by telling them anecdotes of 1941.

It is doubtful, too, whether we can achieve free minds by concentrating our efforts on making our pupils economically independent. We want free minds which will seek the goods in their order. Those who seek primarily their private economic interests may become enslaved to them and try to enslave the rest of us as well.

When we say we want free minds we mean that we want minds able to operate well. The glory and the weakness of the human mind is that it is not determinate to certain things. It may range at will over the good and the bad. To be free to operate well, therefore, the mind requires habits that fix it on the good. So St. Augustine remarked that virtue, or good habits, is the right use of our freedom. What is

needed for free minds is discipline, discipline which forms the habits which enable the mind to operate well. Nothing better can be said on this subject than the concise statement of John Dewey. "The discipline," he said, "that is identical with trained power is also identical with *freedom*." The free mind is first of all the disciplined mind. The first step in education is to give the mind good habits.

The next step in the education of free minds is the understanding of what is good. The mind cannot be free if it is a slave to what is bad. It is free if it is enslaved to what is good. To determine the good and the order of goods is the prime object of all moral and political education. We cannot hope that one who has never confronted these issues can be either a good citizen or a good man. Yet today it is perfectly possible to attain to the highest reaches of the university without ever facing these questions. An educational system which does not make these questions the center of its attention is not an educational system at all. It is a large-scale housing venture. It may be effective in keeping young people out of worse places until they can go to work. It cannot contribute to the growth of free minds.

The great problem of our time is moral, intellectual, and spiritual. With a superfluity of goods we are sinking into poverty. With a multitude of gadgets we are no happier than we were before. With a declining death rate we have yet to discover what to do with our lives.



With a love of liberty we see much of the world in chains.

How can these things be? They can be because we have directed our lives and our education to means instead of ends. We have been concerned with the transitory and superficial instead of the enduring and basic problems of life and of society.

Since freedom is the end of human life, everything else in life should be a means to it and should be subordinate to it as means must be to ends. This is true of material goods, which are a means, and a very necessary one, but not an end. It is true of the state, which is an indispensable means, but not an end. It is true of all human activities and all human desires: they are all ordered to and must be judged by the end of moral and intellectual development.

The political organization must be tested by its conformity to these ideals. Its basis is moral. Its end is the good for man. Only democracy has this basis. Only democracy has this end. If we do not believe in this basis or this end, we do not believe in democracy. These are the principles which we must defend if we are to defend democracy.

Are we prepared to defend these principles? Of course not. For forty years and more our intellectual leaders have been telling us they are not true. They have been telling us in fact that nothing is true which cannot be subjected to experimental verification. In the whole realm of social thought there can therefore be nothing but opin-

ion. Since there is nothing but opinion, everybody is entitled to his own opinion. There is no difference between good and bad; there is only the difference between expediency and inexpediency. We cannot even talk about good and bad states or good and bad men. There are no morals; there are only the folkways. The test of action is its success, and even success is a matter of opinion. Man is no different from the other animals; human societies are no different from animal societies. The aim of animals and animal societies, if there is one, is subsistence. The aim of human beings and human societies, if there is one, is material comfort. Freedom is simply doing what you please. The only common principle that we are urged to have is that there are no principles at all.

All this results in a colossal confusion of means and ends. Wealth and power become the ends of life. Men become merely means. Justice is the interest of the stronger. This, of course, splits the community in two. How can there be a community between exploited and exploiters, between those who work and do not own and those who own and do not work, between those who are weak and those who are strong? Moral and intellectual and artistic and spiritual development are not with us the aim of life; they receive the fag ends of our attention and our superfluous funds. We no longer attempt to justify education by its contribution to moral, intellectual, artistic, and spiritual growth. The only argument that

really tells is that college graduates have a statistical probability of making more money and becoming more prominent than those who never had their educational advantages.

Thus we come much closer to Hitler than we may care to admit. If everything is a matter of opinion, and if everybody is entitled to his own opinion, force becomes the only way of settling differences of opinion. And of course if success is the test of rightness, right is on the side of the heavier battalions. In law school I learned that law was not concerned with reason or justice. Law was what the courts would do. "Law," says Hitler, "is what I do." There is little to choose between the doctrine I learned in an American law school and that which Hitler proclaims.

Precisely here lies our unpreparedness against the only enemy we may have to face. Such principles as we have are not different enough from Hitler's to make us very rugged in defending ours in preference to his. Moreover, we are not united and clear about such principles as we have. We are losing our moral principles. But the vestiges of them remain to bother us and to interfere with a thoroughgoing commitment to amoral principles. Hence we are like confused, divided, ineffective Hitlers. If the contest is to be between Hitler and people who are wondering why they shouldn't be Hitlers, the finished product is bound to win.

To say we are democrats is not enough. To say we are humanitarians will not do, for the basis of any real humanitarianism is a belief in the dignity of man and the moral and spiritual values that follow from it. Democracy as a fighting faith can be only as strong as the convictions which support it. If these are gone, democracy becomes simply one of many ways of organizing society, and must be tested by its efficiency. To date democracy looks less efficient than dictatorship. Why should we fight for it? We must have a better answer than that it is a form of government we are used to or one that we irrationally enjoy.

Democracy is the best form of government. We can realize it in this country if we will grasp the principles on which it rests and recognize that unless we are devoted to them with our whole hearts democracy cannot prevail at home or abroad. In the great struggle that may lie ahead, truth, justice, and freedom will conquer only if we know what they are and pay them the homage they deserve. This is the kind of preparedness most worth having, a kind without which all other preparation is worthless. This kind of preparedness has escaped us so far. It is our duty to our country to do our part to recapture and revitalize those principles which alone make life worth living or death on the field of battle worth facing.



# Suggestions for Wartime Personnel Practices

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A QUARTER of a century has gone by since industry last faced wartime problems, and many of the men who stumblingly felt their way to better production methods in 1917 and 1918 are no longer with us. Personnel administration has made notable strides in the past two decades, but its influence has not yet permeated all industry. Doubtless thousands of employers, faced with a shortage of labor and a patriotic desire to maximize their production, are asking how to achieve their goal. Where can new workers be found? How should hours be scheduled? What type and amount of wage-payment will maximize production? How can present workers be retained? How can post-war readjustments be minimized? Surely such questions must be occurring to employers today.

Finding new workers is one of the most important problems for war industries. In peacetime it may be permissible to lure employees from other concerns; in wartime this practice meets condemnation. It has been estimated that in 1942 alone ten million new workers will be required, and millions more in 1943 and 1944. Unemployment is already so nearly reduced to "unemployables" that little can be expected

from that source. Agriculture already needs all the men it can possibly find. But there are four other important resources: women, negroes, older men, aliens. Many employers have deep-seated prejudices against using one or more of these groups. The exigencies of war, however, are going to require their use in large numbers, and the government is beginning to take action against those firms that discriminate against such workers. Employers should make increased use of the newly federalized employment services, both to avoid pirating workers from essential industries and to accustom themselves to the use of an agency that may soon become compulsory, as in Great Britain.

It is also high time to consider the post-war problems raised by present recruitment, for employers are under both legal and moral obligation to reemploy workers called to active service. Though some of the older workers will then be pensionable and some of the women will retire to married life, it is safe to say that unless business starts planning now many must be dismissed during the shift to peacetime production. If we wish to retain a truly capitalistic system, business must take the initiative; if we miss this opportunity, we may

have reason to fear for the continuation of our economic system.

A further post-war problem arises from the immediate need for skilled and semi-skilled labor. Government agencies are doing much training, and both dilution and upgrading help. But the limited, specialized skills now being inculcated will later prove troublesome, and the necessary downgrading at a later date may be injurious to morale, even if unions raise no difficulties about accepting former bosses as members.

However, employers are more concerned over the immediate problem of maintaining efficiency. Contests are useful but are rarely successful over long periods of time; they require more planning than most firms realize. Incentive wages are considered essential to maximize production. They should be direct, based on individual or gang output, and not on profits. They should be easy for the men to calculate. The incentive should not be reduced as individual output increases, but savings on overhead cost should be shared with the employees. The system should meet with their approval and perhaps be installed on the basis of their suggestions. This procedure will not completely solve the problem of the basic wage, which must be sufficient to attract good men. An employer should pay no attention to propaganda that workers ought not to receive more than "\$21 a month, as in the army," for no soldier gets so small an amount, even in the first few months; room, board, clothing, transportation, and many other items are also provided. It may be inadvisable to

try to maintain labor's standard of living at a time when all of us must make sacrifices, but if labor is to stand some loss the employer (whether man or corporation) must also expect reductions.

Actually, overtime wages to some extent limit the problem of maintaining adequate basic wages; these additional payments largely compensate for rises in living costs. From an economic point of view the reduction in overhead costs seems to justify a sharing with labor. Financially, it is estimated that only 7 per cent of the cost of war contracts is a result of overtime. The great advantage of overtime wages, however, is that the basic rate need not be changed, thus facilitating post-war readjustment of wages and of the cost-price relationship that must almost inevitably follow. Labor generally raises less objection to a reduction in the number of hours than to a cut in the hourly rate, so that a post-war curtailment of overtime should provoke less unrest than a drop in the basic rate.

Just how many hours must be scheduled in order to maximize production will require careful research in each plant. Great Britain learned by bitter experience that 53 to 58 hours a week give the best results, though in some industries requiring tedious work (like winding coils) fewer hours are better. The greater speed of American industry, however, may make the optimum hours here somewhat fewer; a study made by Princeton University recommends an optimum of 48. This conclusion is, of course, based on the



assumption that production must be maintained over a long period; for a short time much longer hours will produce better results, but thereafter output will fall below the long-time maximum. Under such conditions employers should be wary of taking advantage of any relaxation allowed in the legal labor standards.

The fatigue that reduces production is also a factor in industrial accidents and diseases. Of the 460 million man-days lost in 1941 as a result of industrial accidents, some must have been caused by long hours, or more speedy work, or work on night shifts, although the addition of inexperienced workers must also have played a part. Today the employer who permits accidents to cause the loss of man-days should be condemned as severely as the union that calls an unnecessary strike. Employers should also provide group insurance for diseases not covered in the Workmen's Compensation Laws. This would achieve two ends: first, it would tie the worker closer to the company and reduce turnover; second, by permitting a day or so off for slight illness it would reduce prolonged absences caused by serious illness. Careful supervision can prevent malingering.

Welfare activities are today an important supplement to wages in keeping workers or in maintaining their efficiency. Before encouraging workers to move to new locations, employers should certainly ascertain that adequate housing is available. Building new homes is difficult in these days of priorities and will give rise to a post-war problem of sur-

plus housing in certain communities. Some of the difficulties can be overcome either by extensive subcontracting in areas from which labor would otherwise be drawn or by the building of new plants in such areas instead of in those already filled by defense workers.

In 1941, many companies persuaded their employees to take extra pay rather than a vacation. In an acute emergency this may be sound, but if production is to be maintained over a long period the policy is bad. With present rapid production, overtime, night work, etc., might it not be advisable from the viewpoint of output as well as of health that workers be required to take a paid vacation each year? As a method of reducing labor turnover and maintaining efficiency the policy is recommended by those firms that have tried it. Recreation falls in the same class. Instead of reducing outlays for these activities, both government and business should expand their programs to relieve the wartime stresses caused by fatigue and mental strain. Athletics and social functions may play a part in winning this war, not only in military service but in industrial life. They should not be dismissed as mere "boondoggling."

In regard to employer-employee relationships, the principal criterion should be the maintenance of efficient production, although it should be remembered that policies now established may carry over into peacetime. At the least, adequate grievance machinery should be set up, and a good suggestion system formulated. For the former, it

should be remembered that unsettled minor grievances are apt to be magnified beyond their true proportions. For instance, the recent trouble on the Toledo, Peoria & Western Railroad seems to have been the result of minor difficulties so long unsettled that the employees were ripe for a strike. Where a union exists, it should be the principal channel for handling grievances, since it will probably have the confidence of its members. For eliciting employee suggestions, which may at times prove valuable to management, the government is encouraging joint management-union committees. The simple suggestion-box, with adequate rewards and open commendation, may prove adequate in other cases.

It goes without saying that employers in war industries are legally bound to recognize and bargain with unions of the employees' own choosing. The old belief that management, by providing tools and materials, obtained the right to dictate the conditions under which employees should spend a quarter or

more of their working lives has no place in a country fighting to uphold democracy and is economically unsound in failing to recognize that, as an agent of production, labor is as important as capital or management. The important consideration, even for firms not bound by the law, is efficient production. Even the closed-shop issue may today be judged on this basis. The strength of labor's demand for the closed shop or union-maintenance is a sound test of personnel policies during the past decade. Except for the few cases in which selfish labor leaders wish larger incomes from enlarged membership, the closed shop is demanded only where distrust of management exists. Throughout the war period this will continue to be true. If management wants satisfactory relations with its employees, it must seek their confidence and not repel their ideas. Thus, and only thus, can efficient and adequate production be maintained throughout the war and smooth readjustment be attained thereafter.

## *Money in Circulation Reaches Record Figure*

According to Professor R. M. Nolen, total money in circulation in this country reached the record figure last week of \$12,502,000,000 as compared with \$9,645,000,000 a year ago. "Money in circulation," according to Professor Nolen, "consists of money outside the Treasury and the Federal Reserve Banks. It thus includes money in the commercial banks, in the possession of business concerns, and in the hands of individuals. The principal factors responsible for the increase of money in circulation are the heavy governmental expenditures; conversion by foreigners of balances into United States funds, and subsequent withdrawal in cash; and hoarding by refugees and by United States citizens. That hoarding is an important factor is evidenced by the fact that the greatest increase has occurred in the larger denominations."



# What Does a College Professor Do?\*

M. H. HUNTER

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"How many classes do you have to teach?" was the query put me by the barber in the old home town. I had not been back for twenty years. He and I had grown up together. I had gone to college, taken post graduate work, and eventually become a professor in one of our large universities. He had remained, and for years had shaved and cut the hair of some of the citizens. Now, as I sat in his shop, talking over old times and new, he asked me how many classes I taught.

"Oh, sometimes ten, sometimes twelve, and occasionally more," I said.

"Well," he said, with some indication of having given some thought to his reply, "that must make a pretty full day. But then I suppose they pay you well for it."

A full day! Need I enlighten him that I had meant not a day, but a week? No, I had better let it stand and tactfully turn the conversation to other channels. He never would understand how any job could demand so few hours, for to a great many people the work of a college professor is to teach in the classroom. But if this consumes only ten or twelve hours a week, what does he do with the rest of his time?

A few weeks ago I was asked to sit in a business conference. A banker, a contractor, and others

were in the conference room of a bank waiting for another businessman to arrive.

"How did you get away from classes this afternoon?" the banker asked.

"Didn't happen to have any," I said.

"Say, you must have a snap; wish I were a college professor," he said.

Still we waited. I remembered I had in my brief case a report on the finances of the banker's city, prepared by one of my students. I handed it to him because I thought he might be interested; and he was.

"I didn't know you had your students do things like this." "How many of them do you have?" "Are they all as long as this?" "Do you have to read them all?" Such was his side of the conversation. And when I had answered his questions his conclusion was: "Well, I am glad I don't have *your* job." In less than half an hour he had reached opposite conclusions—yet with only a small part of the evidence.

. . . .

Yes, the professor must hold his classes, but is it only the student that must make preparation for them? Perhaps if the class is in Xenophon or Homer or Livy or

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Tacitus and the professor has been over the material a few times, he can go to class and "get by" with little forethought. But if he should be so fortunate—or unfortunate—as to be in political science or modern history or economics or a host of other subjects, he must spend a great deal of time in reading magazines and newspapers, in attending conferences, and in this way and that in "keeping up with the times." If he does not, his classes are uninteresting, he is "behind the times," and he does not get by as a teacher.

In American colleges and universities grades must be given, and these grades are supposed to indicate how nearly the students have attained perfection in the task assigned. Upon these grades hinge many decisions of great moment: Can the student be initiated into a fraternity? Will he be put on probation? Will he be permitted to compete in intercollegiate athletics? Will he make Phi Beta Kappa or some other honorary? Will he be dropped from school? How will his grades appear to a prospective employer?

Yes, a great deal of importance is attached to grades, and the conscientious college professor gives enough examinations to test the ability and work of the student. He carefully reads the examination papers, moreover, paper after paper, question after question, frequently into the hours past midnight. For the reading of examination papers does not come within the ten or twelve hours of teaching.

Occasionally in reading examina-

tion papers one will come across a gem which is worth remembering. Just the other day one of my assistants placed a paper on my desk and asked me to read a certain answer by a Freshman from a large city. He wrote, in all seriousness: "Milk which comes from dairies is of much better quality than that which comes from cows." This is perhaps only less worth remembering than the answer of another Freshman who wrote that "the mechanical advantage of a long pump handle is that you can get someone to help you pump."

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The contact of the student and the professor in the classroom is more or less formal; it is in the professor's office in private conference that they really get to know each other. Such conferences do not come under the number of teaching hours, but any man who is not willing to give many such hours has no business to be a professor. Students are away from home and their problems—not all academic—are real ones; they yearn for someone with a sympathetic attitude with whom they can talk.

"Hello, Jones, what's on your mind this morning?" you greet one of your students as he comes into your office.

"Well, I don't seem to be getting anywhere in this course of yours. Don't know just what the trouble is. I put in enough time, but just don't seem to get it. I thought maybe you could help me."

"Well, it must be one of three things," I begin, "lack of ability,



lack of time, or improper method of study. Just to look at you will quickly dismiss the first (this statement always makes a hit with the student), and, since you allow plenty of time, it must be method."

Then we discuss method and usually arrive at the conclusion that the best plan is for the student to prepare each assignment as if he were going to conduct the class rather than hope he will not be called upon to recite. It takes time to work this out with student after student, but results indicate it is worth it.

Then in comes Smith who is flunking chemistry because he does not have enough time to study it. Of course he doesn't like it and his adviser made him take it, but the thing he emphasizes is lack of time. First, we must find whether he is working to pay expenses, but generally he is not, for the student who works usually knows how to use his time. So we resort to a little calculation.

"Now, let's see, Smith, you are in class 18 hours a week; preparation on your rhetoric should take about 6 hours a week; on your mathematics about 6 hours; on your economics about 6 hours; and on your French about 8 hours." Smith agrees that he does not put in more time than this.

"Then we will give you Sunday off, just to do as you please—not count it in our week. Then you must sleep—8 hours  $\times 6 = 48$  hours in our 6-day week. Three hours a day should be enough for eating and 2 hours a day should be enough for recreation. (The usual reaction is that too much time is allowed for

eating, sleeping, and recreation, but then I insist that I am a generous soul.) That is 30 hours more. Now let's see what we have, all added together—classroom, study, sleeping, eating, recreation. A total of 122 hours, which taken from the 144 hours in our 6-day week leaves you just 22 hours to study chemistry—and you have Sunday thrown in."

That settles the lack-of-time argument with Smith. Of course I knew where I was coming out, but Smith didn't. I had figured it many times before. But my conference was much more effective than if I had simply informed him that he had plenty of time if he would only use it. The one I could have done in three minutes; the other took thirty.

Then here comes a lad, somewhat older than the average student and a little hesitant in his approach. You know he is flunking your course, but you talk about other things until finally he unburdens himself.

"I know as well as you do that I am flunking your course, and I don't blame you. I came in to tell you why. I'm twenty-three years old and I've fallen in love. It is the first time I've ever been in love. By the time I stay with my girl until ten o'clock every night I don't have enough time to study."

Well, here is a new one! No mathematical calculation will work here. So I inquire as to the girl and discover she is a student and likewise flunking. After a while I become stern and say, "You are acting like a fool; you love the girl, yet you are going to be the cause

of both of you flunking out of school; love is grand, but to be seasoned with a little common sense won't hurt it; you had better talk things over and be sensible." It worked. Both of them stayed in school and the profuse thanks I afterward received paid for the time of the conference.

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Books could be written on the time given by the college professor to the re-examination of examination papers. With the student who merely wants to crab or who wants to chisel for a higher mark, I have no patience. It does not take long to dispose of him. But many students actually want to know wherein they have gone wrong so that the same error will not be repeated.

Here is Thomson, a conscientious, hard-working student who received a lower mark than he thought he deserved. Would I be kind enough to go over his paper with him? Certainly.

We discover in one case that he had not read the question—what he had written was perfectly correct,  $2 + 3 = 5$ , but it did not answer the question, how much is  $2 \times 3$ ? Then we discover another answer which was little more than a jumble of sentences, with no evidence of logical thinking back of them. In another place the last part of the answer contradicted the first part, and we found that he had not allowed sufficient time to answer the last question. He was capable of writing a good examination but wrote a poor one simply because he had not (1) carefully read the

question; (2) taken time carefully to think through the answer; (3) stopped when he had written the answer; (4) budgeted the time at his command. If every student in writing examinations would note these simple requirements, the results would more nearly indicate his ability.

A little later Johnson comes in—a fine, likable, capable chap, but in danger of flunking the course. I discover he is managing the basketball team, on the editorial staff of the daily paper, in dramatics, and a member of the Y.M.C.A. cabinet. He needs to be shown that he has almost forgotten that there is a main circus and that he is about to miss it by giving all his attention to the side shows. There should be a place in every student's program for some extra-curricular activity, but certainly there cannot be room for all of them.

Then there is Moore, discouraged because he has to work, cannot carry a full program, and will not be able to graduate with his class. He is all broken up because he will not be able to finish in four years. Four years—I do not know just how that length of time was decided upon as necessary to obtain a liberal education. But however it originated, it has persisted with bulldog tenacity. One hundred and fifty or two hundred years ago one might have gained some idea of the world's stock of knowledge in four years' study. But today knowledge has increased by manyfold, yet still the mark of a liberal education is to be in college four years.

An increasing number of students,

of course, have been pursuing graduate work—that is, specialized study beyond the four years. Such students usually work intensively with one professor, which of course means he must give much time to them. There is Greene who chooses to write his thesis in my field. He does not take it seriously at the beginning because there is plenty of time. Towards the end he gets panicky, rushes to my office with chapters roughly written—will I please read them so he can have them back for revision tomorrow because he just must have the thesis finished on time? He is largely responsible for the pressure under which he is working, but he assumes that his professor is willing to exert pressure likewise. Usually he is correct.

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The examinations are over and there have been failures. Pretty, popular Louise Leffler has failed and has come to see me. It was the failure in my course that is causing her to be dropped from school. It is always *your* failure that causes the trouble—the accumulative effects of others apparently have no bearing. Tears flow copiously, personal humiliation is stressed, parental wrath and disgrace are emphasized, etc., etc., etc., and won't I please, pretty please, raise the grade? All sorts of promises and inducements are offered. But all to no avail.

Louise is told gently, kindly, but firmly that her grade represents her position on the basis of the standards I had set for the course. If I raised her grade, I would have to

lower standards and raise everyone else. I would have been happy if everyone had rated high, for I have no sympathy with the idea that grades will form a symmetrical curve with a certain number of high and low. I explain all this to Louise, tell her that I have taken a great deal of care in arriving at the grades, and that I do not change them. She leaves, having accomplished about what she expected, but she had come with the idea that she had everything to gain and nothing to lose.

Such conferences are not designed to be enjoyable. The way to avoid them is to give no grade below the median in the scale. To do this is to subscribe to a lie; neither is it fair to the student who actually has worked, to the institution, or to prospective employers. The professor who does it achieves popularity of a kind—all the loafers flock to his classes. But after his students have been out five or ten years they look back upon him as an easy mark.

The wants of students are endless. Corey has been absent from class and he wants you to excuse him. You inquire if that is what he expects of an employer when he gets into business, for after all college should be training rather than merely attending classes. Gordon has been appointed toastmaster for a banquet and he wants you to suggest jokes apropos of the different speakers. Stewart wants you to take dinner at his fraternity and talk to the boys afterward. White wants you to judge a debate in his literary society. Huston and Taylor are out



for the debate team (on opposite sides) and want you to help prepare their arguments. Murphy wants you to advise as to the best prospects for his future. And so it goes. The future importance of decisions which may be reached demands that many conferences be given ample time and serious consideration. But these are in addition to the ten or twelve classes a week.

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I have never quite been able to understand just why agents of the 57 varieties should especially pick upon the college professor. Especially life insurance agents and book agents. If the college professor carried all the life insurance that every agent is sure he should carry, he would have to borrow upon his insurance in one company to pay the premium in another. Books, of course, he must have, but it is remarkable how much better the agent knows what he should have than the professor himself. It was a great saving on the professors' time when my institution put on each door: "Agents, solicitors, and canvassers of every description barred from this building." This helps somewhat, but still there are agents who do not seem to read as fluently as they can talk. And then, of course, agents have a way of finding out where you live.

It must not be forgotten that the postman delivers mail to the college professor. And what a variety of requests his mail contains! Last year the high schools of the country were debating a question in my particular field. Would I please send

books, a bibliography, answer a questionnaire, give my opinion on this or that aspect, etc.? Of course I couldn't comply with all requests, but merely to be courteous took time.

Here is a letter from Gray. I had him in class six years ago. He is applying for a new job and will I write a letter of recommendation for him? In a year's time there are a great many letters of recommendation to be written. To be fair to both persons concerned, no form letter can be used. Records must be checked, others consulted, and in the end not all such letters recommend. Then here is a letter from Haddon's mother. She thinks I should give him a great deal of personal attention since he is an only child and has been used to it. Another request that I prepare a paper for a scientific meeting. Still another inquires whether I will be willing to address a woman's club in a near-by city. I have been recommended to them, but they are unable to offer any remuneration.

Speaking of public addresses, a college town can sport more service clubs and other organizations than any area or population several times as large. I belong to a service club, and often wonder what clubs in noncollege communities really do for a program. Four-fifths of our meetings are addressed by college professors. They make it easy for chairmen of program committees.

Many of these organizations act as if it were an honor for the professor to be asked to speak before them. Last September I promised to speak before a rather prominent

club in March. A week before the meeting I called the president and told her that my class schedule would not permit me to come before four o'clock. She said that hour would be perfectly convenient. I prepared my address and appeared at four, only to be told that they were now serving refreshments and that I would not be needed. I am awaiting another invitation to address this group.

Years ago one of my professors made the remark that there are public utilities and public nuisances, and that the telephone is an example of the latter. I did not then appreciate how serious he might have been. Examinations are just over and Reynolds calls to inform me that he inadvertently failed to answer one question, and what can he do? Catlin wants to postpone his examination. A committee chairman calls to tell me that the meeting scheduled for tomorrow, before which I was to give a report upon which I had been working for a month, had been indefinitely postponed. The Dean's office calls to tell me of an important special faculty meeting. A long distance call from the Governor's secretary tells me that the Governor wants me to attend an important conference in the State House on the day after tomorrow. Justin calls to tell me how important it is that he know his grade immediately. I retire at eleven, but the 'phone can still ring. It was a reporter from the college paper asking if I could give him an abstract of an address I was to deliver the next evening.

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Oh yes, in his spare time the college professor is expected to do research. Who is better equipped or qualified to delve into the unknown and fathom its mysteries? Who can better systematize these findings and make them available for the welfare of his fellow beings. So the college professor must do research and write articles and books, so that after all there may be some real, tangible reason for his continued existence.

"But then," as Bill remarked, "I suppose they pay you well for it." As to the adequacy of pay, there is argument. At times some businessmen tell us our salaries should be cut much more than they have been. At other times these same men call us fools for not getting into some business where we could make some money. Certainly if he were paid on the basis of the monotony of his job, the salary of the college professor would not be large. On the other hand, I have yet to hear of a professor being given any considerable bonus in appreciation of his work.

The preparation for the career of professor is long and expensive, and he should realize some return upon his investment. Certainly, too, he should be granted a decent living for himself and family. But whatever the money remuneration, the conscientious professor must consider as a part of his reward the fact that he has a part in shaping future moral, social, and economic conditions through the students who have come under his influence.

An old adage goes something like this: "Man works from sun to sun; woman's work is never done." "Woman" was put there before college professors came into existence. The work of the carpenter, mason, clerk, bookkeeper, seamstress, etc., starts and stops with the blowing of a whistle or the punching of a clock. The work of a college professor is never done.

"The absent-minded professor"—everyone knows him or has heard of him. "Crowded-minded" would be

much more accurate. When he kissed the buck-wheat cake and poured the syrup on his wife, or neglected to comb his hair, or departed without collar or tie, or this, that, or the other, he was probably outlining an address he had promised to give, or thinking of an unpleasant conference he had scheduled, or of some poor student he had failed. And just here my wife calls to say: "Are you getting absent-minded? Didn't you hear me call you to lunch?"

## *The Demand for Women Accountants*

According to Dr. W. C. Robb, Director of Placement for the College of Commerce and Business Administration at the University of Illinois, the demand for women in accounting positions has increased greatly in recent months. Although the number of women holding responsible positions in business has been steadily increasing, accounting has until recently been primarily a man's job, except for a few brave girls who tried to invade the field. The changed situation today, Dr. Robb declared, is indicated by the fact that he received calls in a single week recently from five nationally known corporations who are not only interested in women who have majored in accounting, but who are willing to accept and train women who have had as little as two years of accounting.

The starting salary for women in accounting positions has also gone up. A representative from a public utility company recently interviewed nine girls at the College of Commerce, and offered positions to five of them at an initial salary of \$125 per month. One large corporation has announced a policy of employing more women accountants, not as a war measure, but as a permanent long-term policy.

## *Illinois Farms Highly Mechanized*

An analysis of census data made by the Bureau of Economic and Business Research of the University of Illinois, shows that 82.5 per cent of the farms in Illinois on April 1, 1940 had automobiles, 18.7 per cent had motor trucks, and 51.8 per cent had tractors. For the entire country, 58.1 per cent of the farms had automobiles, 15.5 had motor trucks, and 23.1 had tractors. With current shortages of farm labor and increased production goals, the highly mechanized condition of agriculture in Illinois and throughout the country is particularly important at the present time.



# The Federal Debt

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THE Federal debt has increased from \$48 billions to over \$76 billions in the past year, and it will probably increase by \$50 billions more in the fiscal year 1943. It is generally recognized that the increase in the debt is the result of expenditures for military purposes.

We are not borrowing in order to postpone the burden of this war to future generations. The real burden of the war consists in the lives lost and in the sacrifices of goods and services that might have been available had there been no war. Borrowing does not create more men or more goods. But borrowing is an expedient way to finance a war, partly because individuals will submit to an indirect reduction in their real incomes (goods and services) through the purchase of bonds or through an increase in prices more readily than to a direct reduction through taxation. As individuals gain a better understanding of the problem of war finance, and as they realize that society must give up the same amount of goods and services whether the government borrows or whether it taxes, this will be true to a lesser degree. But it will probably always be true that after a certain point has been reached there will be greater resistance to heavier taxation than to additional borrowing.

The great increase in the national

debt is causing much apprehension. It is known that individuals cannot incur debt indefinitely without eventually going bankrupt. By analogy it is argued that the same thing must be true of the government. But although it is going too far to say, as one economist has recently, that "every analogy to private borrowing must be completely false," still there are important differences in the two kinds of debt.

Public debt may be of four kinds. First, public debt may be self-liquidating, that is, it may be invested in such a way that a monetary income is produced sufficient to cover all costs, including interest and amortization charges. An example of self-liquidating debt would be that incurred for a public water works system, a public power plant, or any other commercial enterprise, in case the price charged for the service or good in question is adequate to meet all costs, including interest and amortization charges. Such debt is a very small part of our total government debt because of our traditional laissez-faire theory of government. Second, public debt may be productive but not self-liquidating. Debt incurred for highways would be an example of this kind. No direct charge is imposed for the use of the highways and consequently they yield no direct monetary return; nevertheless they add

to the total national income from which taxes are paid. Such debts are not burdensome. They are indirectly productive of a monetary return. Furthermore, public debt not incurred primarily for economic purposes may lead to an increase in national income. Debts incurred for purposes of education or recreation may not only increase the capacity to live a fuller life, but may also lead to an increase in national income by improving skills, health, and morale. A third kind of debt may also be productive but yield *no* monetary return *even indirectly*. Debt incurred for an art gallery, a municipal auditorium, or public parks might be included in this category. Such expenditures may be productive of increased enjoyment and satisfaction but add nothing to national income in an economic way. To use Professor Pigou's terminology, they may increase national welfare without affecting national income. It is sometimes difficult to distinguish this kind of debt from debt that leads to an increase in national income. Public parks may improve health and morale and lead to an increase in national income. Then again they may add much to satisfaction and enjoyment, but have no effect on national income. The higher the standard of living, the less likely it is that debts incurred for such purposes will lead to an increase in national income. In the fourth place, public debt may be unproductive. Such debts are those incurred for wars and depressions. In some ways wars may lead to an increase in production, but the losses

they involve are so tremendous that the net result is usually loss rather than gain. It might be said that the satisfaction such debts may yield in the future is of a negative sort—*analogous perhaps to that which an individual feels in the knowledge that he is still alive while paying off a debt for an operation some years earlier.* Such debt has come to be known in current economic literature as "dead weight" debt.

Unfortunately most public debt is of the last type. In this respect public debt differs greatly from private debt. Local debts are frequently of a productive sort, but they constituted less than one quarter of all public debt in 1941 and constitute an even smaller proportion today, because of the great growth in the Federal debt. Most public debts are incurred for non-productive purposes, whereas private debts are usually incurred for productive purposes. Most national debts are the result of wars. Our Federal debt is the result of wars and depression. In the beginning there was great opposition to borrowing by government and to the incurring of public debt. This opposition broke down, as Professor Hansen has observed, because of the great needs of the state in time of war. Although some private debt is incurred for nonproductive purposes, by far the largest part is incurred for productive purposes or for purposes that will yield a direct monetary return.

A similar difference exists in the payment of interest on private and public debts. Interest on private debts is paid from the income pro-

duced by the capital in which the borrowed money has been invested, since most private debts are self-liquidating ones. But inasmuch as the majority of public loans are not of this sort, interest on public debts is paid through the collection of taxes.

What will be the effect of a large Federal debt on the future? The principal of the debt may or may not be repaid, but it is generally assumed that interest payments must be met, and it is to these interest payments then that we must look in seeking the answer to this question. Whether or not interest payments will be a burden on the economy will depend first of all upon the nature of the debt. If it is of the first kind, no burden will be involved, for a self-liquidating debt is invested in such a way as to yield a direct monetary return from which interest payments may be made. No friction is involved in obtaining this monetary return, because purchase of the service or good in question is voluntary. If the debt is productive but not self-liquidating, the national income from which taxes are paid will be growing and can therefore support a larger amount of taxes. Friction may arise in this case, however, from the fact that the individuals called upon to pay increased taxes may not be those who are sharing in the increase in the national income. If the debt is of the third sort and is not productive of greater economic income even indirectly but only of psychic income, a larger amount of taxes will have to be paid out of the same national income, since taxes cannot

be paid out of psychic income. This might occasion no difficulty, since it is possible that individuals might be willing to give up some economic income in exchange for psychic income. Debt of the fourth variety requires the payment of a larger amount of taxes although there has been no increase in either national income or national welfare.

In any of these cases except the first one—that of self-liquidating debt—funds for interest payments will be collected from taxpayers and turned over to bondholders. The Federal debt will not bankrupt the government so long as the government can still collect sufficient taxes to meet interest payments. It is true that since 1917 we have had a legal debt limit, which has been extended twice in recent years. From an original figure of \$45 billions it has been extended to \$125 billions. The legal limit, however, is of little economic significance. The economic limit depends upon ability to collect taxes. The legal limit serves merely as a warning.

It is sometimes argued that not only is there no danger that the government will go bankrupt as a result of the debt, but that, since our debt is practically all held within the country and we owe it to each other and to ourselves, we need not be concerned about its size. But is the transfer of funds from taxpayers to bondholders such a costless procedure? Much will depend upon who are the taxpayers and who are the bondholders. These individuals may or may not be the same persons. If revenue is collected through a sales tax or taxes on commodities,



and if it is assumed that bondholders are persons in the upper income groups, the result of this transfer of funds will be accentuation of the inequality of income, since such taxes bear more heavily upon the lower income groups than upon the higher income groups.

A large proportion of the Federal debt today is held by financial institutions such as banks and life insurance companies. Since the lower income groups have a large stake in such institutions, it has been argued that they are the ultimate owners of a large part of the Federal debt. While there is little evidence available upon this matter as yet, it is doubtful that such reasoning is valid. If the lower income groups had savings of such large amounts, social security would not be so necessary. Recent studies indicate that a large proportion of the people of this country—more than just the well-known "ill-fed, ill-clothed, and ill-housed one-third"—have barely enough or not enough income to support what is considered a decent standard of living, to say nothing of being able to save. The man in the lower income group has a greater interest in such institutions in the sense that he has a greater proportion of his total assets tied up in them than does the man in the upper income group, but it is exceedingly doubtful whether the financial institutions are owned primarily by those in the lower income groups. Under the Keynes plan of treating the compulsory contributions of the lower income classes as forced loans and those of the upper income groups as taxes, the distribu-

tion of government bonds in the future would be different. Under any voluntary plan for the purchase of government bonds, however, the upper income groups will probably own most of the Federal debt, simply because the standard of living of the lower income groups is already so low that it will not be voluntarily reduced further in order to buy bonds.

The revenue to pay interest on the debt might be collected through income taxes, however, rather than through commodity taxes. In that case, those in the upper income groups would in fact be paying the interest on their own bonds, and there would be no accentuation of the inequality of income. But if a large part of the taxes paid by individuals in the upper income groups must be returned to them as interest on government bonds they hold, less revenue will be available for social services that benefit the lower income groups primarily. As a matter of fact, the upper income groups pay in taxes an amount much larger than the amount of interest they receive on government bonds. If they received no interest on government bonds, their incomes would be smaller and the amount of taxes they pay would consequently be smaller. But because of our progressive scale of taxation the reduction in taxes would not be equivalent to the reduction in incomes. If no interest were paid on government bonds, the obligations of the government would decrease, but its revenue would not decrease accordingly, and consequently more funds would be available to use for social services.

The same argument can be put in another way. When an individual buys a government bond, his income will be increased in the future as a result of that purchase. Because his income will be larger, his taxes will also be larger. Although this has not been true in the past because many government bonds were tax-exempt, it will be true in the future, since all new issues of Federal bonds are henceforth taxable. But since the highest rate of income taxation in all modern countries is somewhat less—even though perhaps not very much less—than 100 per cent, the individual's taxes will not increase as much as his income. The rest of the revenue to pay the interest on his bond will come from taxes which he or someone else would have paid anyway, and which in the absence of the government debt might have gone for social services. It may be argued that, if income tax rates reach 90 per cent and above, bondholders are in fact paying most of their own interest, and that the reduction in social services is not appreciable. But in answer to this argument two facts may be pointed out. In the first place, very few individuals are affected by the highest brackets. And, in the second place, rates of 90 per cent and above have never existed before the present war, and if the periods after the Civil War and the World War can be taken as indicative of what will happen after this war income tax rates will be reduced from their present high level. To the extent, then, that social services are an important means of equalizing in-

comes, a large Federal debt impedes the equalization of incomes by reducing the amount of social services that are feasible.

More and more it is coming to be appreciated that too high rates of income taxation have an unfortunate effect in reducing the volume of investment. High rates of taxation reduce the net amount that the individual has left after loaning his funds, and may therefore have an important effect upon the way in which savings are invested—or not invested. Safe investments are likely to be preferred to risky ones. If the net earnings of invested funds after taxes are very small, more and more funds may simply be held in liquid form and not be invested at all. High rates of income taxation also reduce the profit which the borrower of funds makes from any undertaking. They make him more reluctant to engage in new enterprises. A high level of taxation means that he must get a larger gross profit than if the level of taxation were lower. Since there are fewer opportunities to make high profits than to make lower ones, it follows that he will undertake fewer new enterprises. Thus both the lender and the borrower are affected in such a way that there is a decline in investment. The relation between investment and employment has received much attention in recent years. It is now recognized that the volume of investment must equal the volume of saving if there is to be full employment.

At present, some persons maintain that a progressive income tax would not aggravate the problem of invest-

ment and employment but would in fact solve it by reducing the volume of savings. A progressive income tax does unquestionably tend to reduce savings. But the difficulty is that an income tax heavy enough to reduce savings substantially is likely to have a very unfortunate effect upon investment. Although there would probably still be some saving even with a very heavy income tax, the willingness to invest might disappear completely. In other words, an income tax is likely to hit saving more quickly and more severely than investment.

It does not follow, of course, that high rates of taxation are due entirely to the necessity of making large interest payments on the Federal debt. They are due to the large revenue needs of the government, and these revenue needs are determined by all the activities of the government. But to the extent that certain activities of the government cannot be curtailed or that it is deemed unwise to curtail them, then the increase in the Federal debt and the need for larger interest payments will be the immediate cause of higher tax rates. These high rates of taxation, caused by the fact that the government finds it necessary to make large expenditures, may react on investment and therefore on employment so as to necessitate further expenditures by the government on social services.

There is little discussion in current economic journals concerning the problem of debt repayment. Economists are chiefly concerned with more pressing problems. Here-

tofore public debts have become less burdensome as time passed. As both population and national incomes have grown, taxes used to pay interest on the public debt have become less onerous. It cannot be assumed, however, that the same sequence of events will occur in the future. It would be unwise to assume that the burden of the national debt will be lightened as much in the future as it has been in the past by growth in population and national income.

The question of repayment of the debt, however, is of great significance to the businessman. His attitude on the matter is no doubt colored by his own experience and by the fact that he has found fixed charges very hampering at times—especially during depressions and periods of falling prices. Within recent years there has been a tendency for corporations to redeem their bonds and issue stock instead, thus getting rid of fixed interest charges. This tendency might have progressed further had it not been for the effect of our Federal income tax in favoring corporations with bonds by allowing them to deduct interest on bonds in computing net income, but allowing no such deductions for dividends paid on stock.

It is sometimes argued that there is no more reason for the government to pay off its bondholders than for a corporation to pay off its bondholders and stockholders. The difference between public and private debt, however, has already been noted. Government debt incurred for self-liquidating projects,



of course, is really analogous to private debt, and there is not the same problem of repayment as with other types of public debt.

It is also argued at times that the public debt should not be repaid because it fulfills a necessary purpose in serving as a safe investment for individuals, banks, and other financial institutions. It is true that government bonds do serve a very useful purpose in this respect, but that purpose would still be served if the public debt were reduced far below its present amount.

Repayment of the debt is often opposed on the ground that repayment will result in deflation. To the extent that the funds collected in taxes would have been spent if not collected, and to the extent that they are saved by bondholders, there will be a decrease in spending and an increase in saving. This might be the result if bondholders were concentrated in the upper income groups and taxes for interest were collected through commodity taxes, which bear more heavily on the lower than on the upper income groups. Of course, if there were an absence of investment opportunities, an increase in savings would be undesirable. For if money is withdrawn from the income stream in savings, and not returned to the income stream by being invested, deflation and depression will result. That there is a lack of investment opportunities during a cyclical depression has been painfully obvious in recent years. That there will be a lack of investment opportunities indefinitely henceforth is part of

the doctrine of secular stagnation. It is a hypothesis only, and a hypothesis not particularly well founded.

A large proportion of government bonds today are held by banks, and a large volume of bank credit is based on government bonds. Banks which are members of the Federal Reserve system may borrow from the Federal Reserve Banks on the basis of government bonds they hold, and Federal Reserve Banks can issue Federal Reserve notes on the basis of government bonds. But it is argued that if government bonds were redeemed the volume of credit would be reduced and deflation would result. This is not necessarily true. The banks would either have additional cash or excess reserves if government bonds were redeemed. These unused resources would eventually find their way into other investments, although there might be a time lag before this occurred. Both eligibility requirements and reserve requirements may be changed in order to facilitate the expansion of credit. In the light of the numerous changes in recent years, those requirements are regarded as less immutable than previously. Likewise, regulations for the issuing of notes by the Federal Reserve Banks may be changed.

It is obvious that repayment of debt should not occur during a depression, when the funds repaid would have difficulty in finding reinvestment. Furthermore, repayment during the downswing of the business cycle would probably not be feasible unless taxes were increased,

inasmuch as, on the one hand, it is necessary for the government to make larger expenditures during such a period, and on the other hand, revenue will decline as the national income decreases, unless rates are increased. Imposition of heavier taxes would aggravate the depression or retard recovery, and recovery is more important than repayment of debt. During a period of prosperity the funds that are repaid will not have the same difficulty in finding investment. Also, the taxes already in effect will be more productive as the national income grows, although they may come to constitute a smaller proportion of total national income. Should new taxes be levied, the additional revenue could be used to repay debt or for other purposes, such as education, health services, etc. These latter purposes might be considered more important than repayment of debt.

In summary, then, this much can be said about repayment of debt. Repayment would eliminate the necessity for the transfer of funds from taxpayers to bondholders, which service on the debt requires. This transfer of funds is not a costless procedure, inasmuch as the necessity of paying interest slows

down the redistribution of income by reducing the amount of social services that are feasible, and by contributing to higher tax rates has an unfortunate effect on investment. Debt probably cannot be repaid and should not be repaid during depression. To try to repay debt at such a time would be shortsighted, if not impossible. Efforts in that direction would be apt to aggravate the depression and force the economy into such a position that further debt would have to be incurred. (It does not follow, of course, that the incurring of debt will of itself bring back prosperity. That idea is involved in the theory of deficit spending, which cannot be discussed here.) Debt can be repaid during prosperity and a period of growing national income. When such a period has arrived, however, the debt will be less burdensome, for fixed interest payments will then constitute a smaller proportion of national income. The growth in national income will also have expanded the limits of taxable capacity and provided new reservoirs of tax revenue. The amount of debt that will be repaid will depend upon the relative urgency of using tax revenue for debt repayment or for various other governmental purposes.

## *Illinois Gas Tax Below Average for All States*

According to the Bureau of Economic and Business Research of the University of Illinois, "The Illinois motorist fares better in the payment of state gasoline taxes than does the average motorist. The average state gasoline tax is 4.45 cents per gallon, or 1.45 cents per gallon more than the 3 cent rate in Illinois. State gasoline tax rates range from 2 cents in Missouri to 7 cents in Florida, Louisiana, and Tennessee. The rate is 5 cents in eleven states, 4 cents in eighteen states, and 3 cents in nine states."

# Do We Have a New Kind of "Ism"?

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WE IN this country have simplified our thinking processes and eased our thinking labors by attaching convenient labels to whole bodies of doctrine or practices. We have then fallen into the slipshod habit of frequently using the labels without much analytical thought of what they actually represent. We have an even worse habit of trying to fit known facts into some existing pattern with which we are familiar, so that we may give them that treatment which is habitually accorded to the pattern for which we have a labor-saving label. When the facts do not fit into any such pattern we are prone to dismiss them, without much attempt at synthesis, as unrelated but as possessing elements of one or more of the many patterns with which, in their entireties, we have ways of dealing. We cannot make these facts add up to Methodism, Catholicism, Socialism, Communism, Capitalism, Fascism, or Democracy, and so we say airily that they have certain aspects of each, too often without trying hard enough to see whether the body of facts apparent to us all may not form some new, well-integrated pattern of its own. It is this way of thinking which allows new social, political, and economic forms to appear undisguisedly in our midst without our having seen their approach, or

having realized their embryonic development.

What has been gradually evolving in this country, and is now accelerated by war conditions, has not fitted into any of our labeled patterns. We have a unique attempt at the solution of problems arising out of the roundabout production of economic goods and their distribution through the medium of dollar claims. In no other country has this particular kind of economy been tried, at least on the scale on which it has developed in this country. Communism and Socialism are two recognized ways of trying to provide for the needs of the social body; Capitalism is another way. The first two call for a considerable measure of central planning based upon the means and the needs of the populace, whereas the last calls for individual planning based only upon the means of individuals.

While we have been trying to identify our present economic system as Capitalistic, and threatened changes as Socialistic or Communistic, and have fought off economic planning laid out by a central body in blueprints and quotas, we *have* central planning all the same, and it is neither Socialism, nor Communism, nor Capitalism as we think of them. We might well call what we have begun to have "Residuism."



Under this unique system, our present policy-determining officials, bureaucratic groups, and representatives of various pressure groups—not always easy to identify—appear to decide what the country needs in the way of housing, agricultural products, manufactured products, labor conditions, education, research, art, recreation, and consumer protection, to cite only a few examples. This is true not only under the present war conditions but was true even in the preceding peacetime. It has usually been considered inexpedient to have the government take over the supplying of these needs directly. That would be repugnant to the American mind-set. We would identify such a move as Socialism or Communism, which we long ago agreed to damn, and would bring immediate pressure for the removal from authority of those who dared try to inflict such a “foreign” system upon us.

Personal judgments are involved in the planning which we have now to an extent which makes its identification as *government* planning unrealistic. The spate of whim-strewn plans is not sufficiently correlated to indicate any comprehensive body of considered policy. The total of objectives is not even known, to say nothing of their lack of integration, and the same can be said of methods. Probably few, if any, of those responsible for the successive expedients adopted have even thought of themselves as planners for the social structure, and there certainly is no organized group for the central planning of our economy as a whole. In general,

the plans of each group have centered in one field. The chief common characteristic of their activities which might deserve to be called a policy is that of getting all the desired results possible from private enterprise before picking up the job with a government instrument designed to carry it further along the path charted by the planners—often crossing but seldom paralleling the paths of other planners.

So our planners, each group with its narrow and uncoordinated interests, have proceeded toward their various objectives in somewhat indirect ways. They have successfully promoted the creation of numerous governmental agencies devised and administered to encourage private initiative and private capital in production of as many as possible of the things the planners thought we needed. Through insurance of funds in banks and savings and loan associations, the Federal Housing Administration, and Federally owned mortgage companies they made the housing field again attractive to private investors. They have shepherded into this field as much private capital as could be hired at rates which they considered home buyers could afford to pay. Then enters Residuism.

When private capital would go no further and the needs were still unfilled, the planners, often assisted by pressure applied by various groups, have prodded the law-makers into bringing into action such agencies as the United States Housing Authority to provide the remainder. With this array of varied instruments gathered under central-

zed direction the planners could increase or decrease the available supply of housing almost at will, not by blunt administrative orders to private housing interests, but simply by changing regulations of governmental bureaus with regard to permissible interest rates or insurance terms, or by constricting or expanding operations of some government agencies in this field for any desired length of time. Governmental agencies have or can acquire enough housing to regulate the sale and rental markets through their own policies and operations, conducting these always with a view to their desired effects upon private housing activities.

Planners within the governmental sphere can exercise a large measure of control over interest rates through the banking system. Through the Federal Reserve Board, tax legislation, SEC requirements, and other instrumentalities the flow of capital into private enterprise can be markedly influenced. Lack of favorable investment opportunities in private ventures can force funds into government bonds, through which the RFC and other agencies may finance industry and agriculture upon favorable terms when their conditions are met.

These same predilections of planning groups for letting each branch of our economy carry itself as far as it can under approved conditions before their instruments are brought into operation are also apparent in education, research, and nearly every other phase of our economic life. They begin to form a distinct pattern of their own. If a planning

coalition disapproves of the nature or extent of a branch of activity or of the way in which it is being handled, supplementation can usually be denied; the coalition may find among its agencies some way of repressing the activity, or, failing that, may ask for a new device with which to throttle it.

This scheme is not one of production according to government *orders*, but it is production according to the views of planners who have been able to tap government sources of authority. Private enterprise is not submerged; it is simply made unsafe and unprofitable, or safe and profitable in given directions only. Each set of planners usually asks for instruments with which to direct the private means of production on appropriate terms into the hands of those who will supply purported social wants which lie within its sphere of interest rather than for government entry directly into production. It is only below the margin of profitability to individuals, which is itself often fixed by the planners, that these planners urge that the government enter into the production field, and then preferably through intermediaries.

In a Socialistic or Communistic regime the major burden of a planned and articulated production program is assumed by the central government; private enterprise finds expression only on the fringes, where the activities which it carries on are not sufficiently in the general public interest for the government to concern itself with them. In a developed "Residuistic" regime the greater part of production would be



in the hands of private enterprise for profit; governmental productive activity would be planned and correlated for only those allegedly socially necessary goods in which there was no profit to make their provision a matter of concern to private enterprise. Planning for the governmental activities under a Residualistic system would lag behind private production far enough to reveal the deficiencies left by the latter. The weights of public and private productive activities are at opposite ends of the parallel see-saws between the peoples and their governments in the two types of economy. And, of course, either type of government may take decisions leading to reapportionments of the two weights on opposite ends of its own see-saw from time to time.

Governments always and everywhere have had some part to play as balancing mechanisms. They have confined themselves to some measure of control over what was privately produced with a view to profits either for the state or for the entrepreneur, or for both, or they have gone over to the point where practically all production was taken out of private hands by the state.

Here we have uncoordinated planning groups in government who first ask for leverage to pry private enterprise as far as it will go toward their envisioned goals, then stand ready to demand more direct governmental means of supplying any residual quantity of the good for which they detect a need. Profit is a consideration only in so far as it is absolutely necessary to induce

an optimum amount of private resources to enter a field of an alleged deficiency. Some of the methods are those which we have for convenience tagged "Mercantilism" (as a matter of fact, prosecution of war inevitably brings to any country at least temporarily, some aspects of what we have recently come to catalog as Fascism) but the objectives are not the same and governmental activity goes further in our economy. Our unanalytical thinking geared for handling the labels rather than the constituent elements of the bodies of doctrine or practices which the labels should represent to us, allows the persistent application of a familiar label to the economy which we actually have to beguile us into the matter of-course assumption that little is essentially changed with us, and that we have easily, but determinedly, saved the day for our traditional Capitalism. Have we?

Judgment of current developments depends much upon an individual's political, social, and economic philosophy and status. For those who believe in "the greatest good to the greatest number" the may be a very good thing, provided that these people find themselves in agreement with the administrative and bureaucratic conceptions of the greatest good to the greatest number.

"Residuism" is by no means as yet fully developed as a system, but who can doubt that the exigencies of the war program may raise it to full maturity for much more extensive use in the period of post-war readjustment?